

Message Text

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10

ACTION EB-11

INFO OCT-01 AF-10 EA-11 NEA-10 ADP-00 GSA-02 AID-20

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10

SS-15 STR-08 CEA-02 L-03 H-03 PA-03 PRS-01 USIA-15

TAR-02 AGR-20 INT-08 RSR-01 /198 W

----- 111831

R 170105Z AUG 73

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 4977

INFO AMEMBASSY BANGKOK

AMEMBASSY COLOMBO

AMEMBASSY JAKARTA

AMEMBASSY LAGOS

AMEMBASSY MONROVIA

AMEMBASSY SINGAPORE

LIMITED OFFICIAL USE KUALA LUMPUR 3623

E.O. 11652: N/A

TAGS: EIND

SUBJECT: RUBBER DISPOSALS

REF: KUALA LUMPUR 3606

1. SUMMARY: EMBASSY CONSIDERS GOM PROPOSAL TO RAISE US RUBBER DISPOSALS PER REFTEL AS SOUNDLY CONCEIVED AND IN LINE WITH OUT POLICY TO DISPOSE OF ENTIRE STOCKPILE EXPEDITIOUSLY AND WITH MAXIMUM REVENUES. AS INCREASED RATE OF RUBBER DISPOSALS NOW APPEARS IN US INTEREST EMBASSY RECOMMENDS FAVORABLE ACTION ON GOM PROPOSAL. END SUMMARY.

2. GOM REQUEST STEMS FROM GROWING ALARM OVER CONSEQUENCES OF PROLONGED PERIOD OF RUBBER PRICE FAR IN EXCESS OF LIMITED OFFICIAL USE

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PRODUCTION COSTS OF BOTH NATURAL AND SYNTHETIC. OVERRIDING

WORRY OF MALAYSIANS IS THAT UNLESS PRICE IS BROUGHT DOWN SOON FROM PRESENT LEVEL SYNTHETIC PRODUCTION CAPACITY WILL BE OVER-EXPANDED. THEY ESPECIALLY CONCERNED THAT JAPAN WILL EXPAND SYNTHETIC CAPACITIES WHICH WILL BE AVAILABLE FOR EXPORT MARKETS. IN ADDITION, CONTINUED PRICING INSTABILITY WOULD JEOPARDIZE GOM'S HOPE OF RATIONALIZING WORLD RUBBER SUPPLIES AND MAINTAINING EQUITABLE LONG-RANGE BALANCE BETWEEN NATURAL AND SYNTHETIC RUBBER PRODUCTION. IT WOULD ALSO THWART GOM'S EFFORTS TO PERSUADE OTHER NATURAL RUBBER PRODUCERS IN ASEAN AND ANRPC TO FOLLOW "PRUDENT" POLICIES OF PRODUCTION EXPANSION AND MARKETING CONTROLS.

3. A SECOND AND ALMOST EQUALLY GREAT CONCERN OF GOM IS THE PRESENT OVERHEATING OF MALAYSIAN ECONOMY. A MAJOR DOMESTIC INFLATIONARY PRESSURE IS FROM MUCH INCREASED, BUT INHERENTLY UNSTABLE, INCOMES OF RUBBER PRODUCERS. IN SEEKING TO BRING DOWN PRICE OF RUBBER GOM HOPES TO DIMINISH AN INTERNAL SOURCE OF CURRENT INFLATION AND AT THE SAME TIME SOFTEN THE INEVITABLE BLOW TO THE ECONOMY FROM AN EVENTUAL DROP IN RUBBER PRICES.

4. AN IMPORTANT ELEMENT IN GOM ATTITUDE IS BELIEF THAT CURRENT HIGH RUBBER DEMAND IS PARTLY SPECULATIVE, REFLECTING INTERNATIONAL CURRENCY INSTABILITY. SUCH SPECULATIVE BUYING, THEY BELIEVE, ADDS TO NORMAL INSTABILITY IN RUBBER MARKET RESULTING FROM FLUCTUATIONS IN USER DEMAND FOR RUBBER PRODUCTS. THUS, THEY ANTICIPATE THAT UNLESS CORRECTIVE ACTION TAKEN NOW PRICING WILL BE EVEN MORE PRONOUNCED WHEN CURRENT BOOM IN RUBBER USAGE CYCLES DOWNWARD.

5. EMBASSY COMMENT. WE URGENTLY RECOMMEND SERIOUS CONSIDERATION OF GOM PROPOSAL. WHILE PROPOSAL, AS WELL AS FOREGOING ASSESSMENT OF RATIONALE, COUCHED IN TERMS OF GOM INTEREST, WE BELIEVE US HAS PARALLEL INTEREST IN STABILIZING RUBBER MARKET. MOREOVER, INCREASING DISPOSAL NOW WILL PROVIDE GREATER REVENUE FOR US FROM SALES AT CURRENT HIGH PRICE LEVELS.

6. IF DEPT AND GSA FEEL THAT IT IS NOT POSSIBLE TO COMPLY WITH ABOVE RECOMMENDATION PLEASE PROVIDE US WITH A DETAILED LIMITED OFFICIAL USE

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EXPLANATION. SINCE GOM APPEARS IN NOTE TO ACCEPT THE LOGIC AND REASONING OF OUR POSITION ON STOCKPILE DISPOSALS WE CANNOT LIGHTLY DISMISS THEIR PROPOSAL TO PUT OUR POLICY TO PRACTICAL APPLICATION.
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